

Message Text

CONFIDENTIAL

PAGE 01 MEXICO 10132 202141Z
ACTION ARA-14

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 ICAE-00 SS-15
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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC IMMEDIATE 0943

C O N F I D E N T I A L MEXICO 10132

E.O. 11652: GDS
TAGS: ENRG, MX
SUBJECT: AMBASSADOR'S MEETING WITH PRESIDENT LOPEZ
PORTILLO: NATURAL GAS

1. MY MEETING THIS MORNING WITH LOPEZ PORTILLO WAS A
DISAPPOINTMENT. THE THRUST OF THE PRESIDENT'S REMARKS
WAS THAT LAST YEAR'S USG REFUSAL TO ACCEPT WHAT HE
REGARDED AS FAIR TERMS HAD PROVEN AN EMBARRASSMENT AND
THAT NOW MEXICO MUST USE ITS GAS DOMESTICALLY.

2. I EXPLAINED TO THE PRESIDENT THAT FOLLOWING THE RECENT
HOUSE/SENATE JOINT CONFERENCE COMMITTEE ACTION ON NATURAL
GAS PRICING, I HAD BEEN AUTHORIZED TO APPROACH HIM TO
SUGGEST RE-OPENING THE GOVERNMENT-TO-GOVERNMENT TALKS.
I TOLD HIM THAT WE WISHED TO ESTABLISH MUTUALLY ACCEPTABLE
GUIDELINES UNDER WHICH THE COMPANIES COULD NEGOTIATE.
IN THIS MANNER WE EXPECTED TO AVOID THE PROBLEMS ASSOCIATED
WITH LAST YEAR'S ILL-FATED LETTER OF INTENT. I NOTED THAT
WE WERE AMENABLE TO ANY FORM OF TALKS. WE WOULD BE
WILLING TO SET UP A NEGOTIATING TEAM OR DESIGNATE A SINGLE
REPRESENTATIVE. THE TALKS COULD BE PRIVATE OR WELL-
PUBLICIZED. THEY COULD TAKE PLACE IN MEXICO, WASHINGTON
OR SOME OTHER LOCATION.

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3. LOPEZ PORTILLO SAID HE HOPED HIS REMARKS WOULD NOT BE
MISINTERPRETED AND THAT HE HAS GREAT RESPECT FOR THE U.S.
AND PRESIDENT CARTER. HE ALSO INSISTED THAT HE WAS SPEAK-
ING AS THE MEXICAN PRESIDENT AND NOT AS A BUSINESSMAN
TRYING TO GET A BETTER PRICE FOR HIS GAS. HOWEVER,
FOLLOWING THE LAPSE OF THE LETTER OF INTENT, HE HAD

DIRECTED PEMEX TO STUDY USING MEXICO'S GAS DOMESTICALLY. HE SAID WE MUST UNDERSTAND HOW DELICATE POLITICALLY ENERGY MATTERS AND RELATIONS WITH THE U.S. ARE IN MEXICO. THIS PROJECT HAD, OF COURSE, ENCOMPASSED BOTH OF THESE SENSITIVE ELEMENTS. HE SAID HE AND HIS ADVISERS HAD STUDIED THE SALE OF GAS TO THE U.S. THOROUGHLY BEFORE DECIDING TO TAKE WHAT FOR THEM WAS A STIFF POLITICAL RISK. THEY FELT THAT GAS WOULD OFFER AN OPPORTUNITY FOR MEXICO TO REDRESS THE HUGE TRADE DEFICIT WITH THE U.S. THEY ASSUMED THE CONTRACT WOULD BE A SIMPLE COMMERCIAL TRANSACTION AND NEVER ENVISAGED PROBLEMS WITH THE USG. LOPEZ PORTILLO REMARKED AGAIN THAT HE HAD BEEN LEFT QUOTE HANGING BY THE PAINT BRUSH UNQUOTE BY THE USG REFUSAL TO ACCEPT WHAT HE FELT WERE REASONABLE CONTRACT TERMS.

4. I NOTED THAT REGARDLESS OF MEXICO'S EFFORTS TO USE ITS GAS DOMESTICALLY THERE WOULD BE SUBSTANTIAL GAS SURPLUSES DURING THE NEXT SEVERAL YEARS AND THAT THE COST OF CONVERSION WOULD BE ENORMOUS. LOPEZ PORTILLO AGREED WITH BOTH POINTS BUT SUGGESTED THAT HE HAD BEEN COMPELLED TO MAKE THIS DECISION BY USG INACTION. HE NOTED THAT THE REDUCED LEVELS OF SURPLUS GAS COULD BE SOLD TO US BUYERS ON A SHORT-TERM BASIS THROUGH THE EXISTING NORTHERN PIPELINE SYSTEM. AT ANY RATE, HE SAW NO REASON FOR RENEWED GOVERNMENT-TO-GOVERNMENT TALKS UNTIL AFTER CONGRESS HAD COMPLETED ACTION ON THE PRESIDENT'S ENERGY BILL.
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5. FYI: I AM FLYING TO WASHINGTON THIS AFTERNOON AND WILL BE AVAILABLE TO DISCUSS THIS MATTER FURTHER. LUCEY

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Message Attributes

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